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SUBJECT: MINING UPDATE: TAKEOVERS AND NEWCOMERS

REF: (A) ASMARA 173; (B) ASMARA 168; (C) ASMARA 095

11. (SBU) SUMMARY: The mining and exploration sector is one of the only areas of forward momentum in Eritrea. New entrant companies continue to sign new exploration contracts and well-established Sanu Resources plans to merge with a larger Canadian entity. Collectively, the companies, new and old, agree that the mining/exploration sector is an area in which the government actively seeks to make its partners happy. End Summary.

SANU RESOURCES MERGER

12. (SBU) Sanu Resources, one of the four major exploration companies in Eritrea, announced it will merge with Canadian Gold Hunter (CGH). CGH is an exploration company with operations in Canada, Mexico, and throughout Latin America. Unlike the Chalice/Sub-Sahara acquisition (Ref A), the Sanu/CGH venture will allow Sanu Resources to maintain its holdings in Africa rather than handing them over to CGH. The Sanu/CGH consolidation will give a much-needed boost to investor confidence, according to Sanu's Country Manager. Since the announcement, Sanu's stock price rose 5.2% and CGH's by 3.9%.

13. (SBU) Sanu Resources's major holding is the Hambok deposit in Eritrea, nine miles south of the famed Bisha mining strip. The deposit is worth over \$200 million, according to Sanu, and is ready to be sold to interested mining companies. Sanu expects to acquire several more exploration licenses in Eritrea near the Red Sea, and particularly hopes to gain a license for potash.

EXPLORATION NEWCOMERS

14. (SBU) Andiamo Exploration Ltd (a British registered company) is one of the new companies recently awarded exploration licenses by (Ref B). Andiamo holds copper, gold, and zinc exploration rights in Haykota, 31 miles east of the border city of Tessenei. It is the only privately held company to enter the mineral exploration fray in Eritrea. Because the company is privately owned it has been less concerned with stock market declines and has relied mostly on adventurous private investors, according to one of Andiamo's owners. Although Andiamo is the third iteration of the original company (it was previously the Eritrean Minerals Corporation and originally the Gold Corporation of Africa), Andiamo is confident it will continue to attract private capital.

NEW MINISTER, MORE COOPERATION

15. (SBU) One of Mines and Energy Minister Ahmed Haj Ali's (ref C) first acts was to increase the validity of exploration licenses from three years to five years. The exploration and mining sector in Eritrea is a mutually beneficial arrangement, according to representatives from both Andiamo and Sanu. In exchange for preferential treatment such as duty-free imports of equipment and same-day travel permits, the companies deposit millions of dollars into bank accounts in Eritrea but pay out most of their expenses in nakfa. Sanu Resources, for example, spends between two and three million USD each year in Eritrea. Andiamo's co-owner, an Eritrean ex-fighter, expressed hope that the lessons learned from the relationship between the Ministry of Mines and Energy and exploration companies "translate to other ministries."

MCMULLEN